

RALPH S. MICHAEL

<p>1 THE WITNESS: It could. 2 MR. COGAN: Okay. 3 Q. And then finally, you'll notice that the 4 next sentence says, "The restricted fund balance at 5 1/31/96 is \$136.8 million of which \$30 million is 6 designated for the Obligated Group's debt service." 7 A. Yes. 8 Q. Would that be a mitigating factor? 9 A. Yes. 10 MR. TERUYA: Objection. 11 THE WITNESS: Strong mitigant there. 12 MR. COGAN: Okay. 13 Q. You can put that exhibit aside now 14 Mr. Michael. Just a couple more questions. 15 In your experience has it ever been the 16 case that you have ignored a covenant violation when 17 the covenant violation has been brought to your 18 attention? 19 A. Not that I can ever recall. 20 Q. Can you recall any such instance where PNC, 21 upon learning of a covenant violation, simply ignored 22 that violation? 23 A. Not -- not consciously. 24 Q. Would I be correct that typically once you 25 become aware -- you, I'm speaking generically about</p>	<p>Page 195</p> <p>1 A. Yes. I chair the audit committees at Key 2 Energy and Integrated Alarm Services, and I'm on the 3 audit committee and chair the finance committee at 4 Ohio Casualty. 5 Q. As a member of those audit committees, has 6 it been your expectation that if the company's 7 accountants became aware of material misstatements in 8 financial statements, that they would bring that to 9 your attention as a member of audit committee? 10 A. It's a requirement. 11 Q. And similarly, if the auditors became aware 12 of any internal control deficiencies, that they would 13 bring that to your attention? 14 A. Absolutely. It's a requirement, and 15 currently a requirement under Sarbanes-Oxley Act 404. 16 Q. And if the auditors had concerns with the 17 integrity of management, would that likewise be a 18 fact that you would expect the auditors to bring to 19 your attention? 20 A. Yes. 21 Q. And would that have been true back -- based 22 on your experience back in the period of time 1996 23 and 1997 that your expectation would be that auditors 24 would bring those sorts of facts to your attention? 25 MR. TERUYA: Objection.</p>
<p>1 PNC -- 2 A. Yes. 3 Q. -- become aware of policy, or, excuse me, 4 of a covenant violation, that that triggers an 5 analysis as to what PNC should do in the face of that 6 covenant violation? 7 A. Yes. 8 MR. TERUYA: Objection. 9 BY MR. COGAN: 10 Q. And am I correct from your testimony to 11 understand that the circumstances as they exist at 12 the time of that covenant violation will dictate in 13 many respects what action PNC would ultimately take? 14 A. Yes. 15 Q. Okay. 16 Finally, Mr. Michael, you indicated that 17 you were sitting on was it three corporate boards? 18 A. Yes. 19 Q. I'm just sort of curious. What boards were 20 you sitting on? 21 A. Board of Ohio Casualty Corporation, Key 22 Energy Services, Inc., and Integrated Alarm Services 23 Group. 24 Q. And I think you also said you served on at 25 least two audit committees?</p>	<p>Page 196</p> <p>1 THE WITNESS: The rules were different at 2 that time with respect to the codification of 3 behavior. Sarbanes-Oxley wasn't passed, and it 4 wasn't enacted at the time. But my expectation would 5 be that issues of internal control would be, if not 6 taken directly to the audit committee, you know, 7 would be presented to the audit committee in the 8 annual management letter. 9 BY MR. COGAN: 10 Q. And the management letter is the letter 11 from the accountants? 12 A. Yes. From the accountants to the -- to 13 management and copied to the audit committee and, in 14 many cases, to the Board. 15 Q. Have you had occasion in your experience 16 sitting on the audit committee to invite the auditors 17 into executive session? 18 A. At every meeting. 19 Q. And just for the benefit of people who may 20 some day watch this tape and not know what an 21 executive session means, can you explain that to me? 22 A. An executive session is a portion of the 23 meeting where management is excused from the room, 24 and the meeting is strictly between the Board and the 25 audit committee. I'm sorry. The Board and the --</p>

Miller Dep.

In The Matter Of:

*AHERF v.
PRICEWATERHOUSECOOPERS LLP*

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May 17, 2004

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MILLER, LESLIE ANN - Vol. 1



LESLIE ANN MILLER

<p style="text-align: right;">Page 26</p> <p>1 times as similar to a rotten onion. The more we peeled away 2 the layers, the more rotten the core appeared. 3 It was a financial nightmare, as I recall. 4 And, again, my memory is fuzzy, but it was certainly about 5 that time that you could start to pinpoint real financial 6 difficulties. I remember specifically that Sherif had 7 announced a hope to acquire the Cooper Medical System in New 8 Jersey shortly after Hahnemann and those plans had to be put 9 on hold because of finances.</p> <p>10 Q You were a member of the AHERF board of 11 trustees when the Hahnemann acquisition was done?</p> <p>12 A Yes, and I was a member of the negotiating team 13 both times. There was a small team of us from AHERF that met 14 with a small group from Hahnemann.</p> <p>15 Q The first time, the time that it didn't happen, 16 why didn't it happen at that time?</p> <p>17 MS. MEADEN: Objection; foundation.</p> <p>18 A Inability to come to mutually agreeable terms 19 and I think real concern ultimately about the financial 20 stability of Hahnemann as well. No, I take that back. It 21 wasn't so much I think financial concerns as it really was 22 governance concerns.</p> <p>23 BY MR. FRIESEN:</p> <p>24 Q By governance concerns, do you mean the 25 difficulties of integrating two totally different medical</p>	<p style="text-align: right;">Page 28</p> <p>1 Hahnemann name would take precedence over the Medical College 2 of Pennsylvania name or that there would be some ridiculous 3 configuration, the possibilities of which were endless if you 4 just let your mind wander.</p> <p>5 Q And that was a concern that you had?</p> <p>6 A Yes, sure. And certainly not that I alone had.</p> <p>7 It was the board and the faculty, particularly the 8 long-standing members of the faculty.</p> <p>9 Q Because MCP had been known and respected as MCP 10 for a long time?</p> <p>11 A Yes. And, frankly, there was a certain elitism 12 among the Medical College of Pennsylvania vis-a-vis the 13 caliber of its medical education and its hospital. Hahnemann 14 did not enjoy a particularly strong reputation for either 15 medical educators or hospitals. It was not a hospital that 16 someone would go to by choice.</p> <p>17 Q So the ultimate name of MCP-Hahnemann is 18 something that Mr. Abdelhak wanted?</p> <p>19 MS. MEADEN: Objection.</p> <p>20 A Well, no, I don't think it was something -- 21 again, I can't speak for himself. I mean it was -- some kind 22 of compromise was necessary.</p> <p>23 BY MR. FRIESEN:</p> <p>24 Q So you had this discussion about the name first 25 at the meeting, at a board meeting?</p>
<p style="text-align: right;">Page 27</p> <p>1 schools at different physical locations?</p> <p>2 A Well, that certainly, but also with it the 3 integration of two strong boards.</p> <p>4 Q And then how long after that did you become a 5 member of the negotiating committee for the second time?</p> <p>6 A I think it was within about two years.</p> <p>7 Q And were the governance concerns that you had 8 the first time, did they go away in the intervening two years?</p> <p>9 A No. And certainly I remember a very big battle 10 with Sherif that continued until after the meeting when he 11 chastised me for questioning his motives over the ongoing name 12 and identity of the institution.</p> <p>13 Q Had you questioned his motives?</p> <p>14 A Yes. Sure.</p> <p>15 Q And can you remember -- this was at an AHERF 16 board meeting?</p> <p>17 A I honestly don't remember exactly. I remember 18 it was centered around promises that he -- or representations 19 that he had made about the name and the configuration of the 20 board.</p> <p>21 Q Let's start with the name. What can you 22 remember about what he thought the name should be and what you 23 thought the name should be?</p> <p>24 A I don't remember what -- I can't speak as to 25 what he thought, but the ongoing concern was that the</p>	<p style="text-align: right;">Page 29</p> <p>1 A There were ongoing discussions around that 2 time, yes.</p> <p>3 Q And then Mr. Abdelhak chastised you after the 4 board meeting?</p> <p>5 A Again, this is all very fuzzy recollection, but 6 yes, I remember.</p> <p>7 Q Do you recall what it was that set him off?</p> <p>8 A No, I do not.</p> <p>9 Q And do you recall what he said to you after the 10 meeting?</p> <p>11 A No, no. Just very unhappy with my challenging 12 him or suggesting that -- just with my challenging him. 13 Strike that last part.</p> <p>14 Q And what was your reaction when you received 15 this chastising?</p> <p>16 A Duly noted, move along. It was certainly not 17 anything new. And Sherif and I enjoyed a healthy sparring 18 relationship throughout my tenure. I mean he knew that I was 19 going to be an ongoing bur in his saddle, a polite one, and I 20 think that he ultimately respected me. My positions were not 21 irresponsible or ill conceived, and I think the fact that he 22 not only kept me on the board but put me in positions of 23 responsibility demonstrated that, but he knew that I was not a 24 yes person. But we battled regularly.</p> <p>25 Q Did you observe Mr. Abdelhak intimidating other</p>

8 (Pages 26 to 29)

LESLIE ANN MILLER

<p style="text-align: right;">Page 30</p> <p>1 members of the board?</p> <p>2 MS. MEADEN: Objection.</p> <p>3 A Well, I'm not sure that I'd use the word</p> <p>4 "intimidate," but I mean clearly there were different, quote,</p> <p>5 classes of members of the board.</p> <p>6 BY MR. FRIESEN:</p> <p>7 Q Tell me about that.</p> <p>8 A Well, there were employees. There were members</p> <p>9 of the medical faculty who were defendant upon Sheriff for</p> <p>10 their continuing livelihood who wished to continue to be a</p> <p>11 part of that system. He was their boss. So, obviously, they</p> <p>12 didn't enjoy the independence that I, as a totally untethered</p> <p>13 board member, did.</p> <p>14 And as with any board, there were a certain</p> <p>15 number of sycophants who seemed to think that by toeing the</p> <p>16 Abdelhak line they might advance themselves or their own</p> <p>17 respective positions, and so there was less of a tendency on</p> <p>18 the part of them to question.</p> <p>19 And, again, Sheriff was a very powerful</p> <p>20 personality. He was very smart, very skilled, and he had the</p> <p>21 ability I think to lull a lot of people into a false sense of</p> <p>22 security.</p> <p>23 Q And you thought that at the time?</p> <p>24 A I thought that continuously, yes. And to his</p> <p>25 credit, there certainly was a period of time when the</p>	<p style="text-align: right;">Page 32</p> <p>1 because from all outward appearances the strategy was very</p> <p>2 successful. So, you know, I certainly had no objective reason</p> <p>3 not to agree, again, based upon the information that was</p> <p>4 disseminated to the board.</p> <p>5 But, again, I point to the acquisition of</p> <p>6 Graduate as a time that I think the concerns of many of us</p> <p>7 rose to the surface again, because we had enough information,</p> <p>8 enough financial information to realize that all was not as</p> <p>9 rosy as we had hoped, but not enough to comprehend the depth</p> <p>10 and breadth of the problem.</p> <p>11 BY MR. FRIESEN:</p> <p>12 Q And that testimony just now, you're referring</p> <p>13 to prior to the Graduate acquisition being approved?</p> <p>14 A Yes, and continuing afterwards.</p> <p>15 Q How did you find out about the Graduate</p> <p>16 acquisition, do you recall?</p> <p>17 A Well, again, it would have been through some</p> <p>18 type of communication from Sheriff to the board. Again, it was</p> <p>19 no surprise, because Harold Cramer, who was then the CEO of</p> <p>20 Graduate, had made numerous overtures to Sheriff about some</p> <p>21 kind of a merger or partnership or whatever, and, as I recall,</p> <p>22 he had been turned down a number of times.</p> <p>23 (1994 trustees' evaluation marked as Exhibit</p> <p>24 Number 2574.)</p> <p>25 BY MR. FRIESEN:</p>
<p style="text-align: right;">Page 31</p> <p>1 Allegheny Health System certainly in the Philadelphia area was</p> <p>2 the system by which all others were being measured. You need</p> <p>3 only look to the hospital of the University of Pennsylvania</p> <p>4 and the financial crisis that it fell into to find a perfect</p> <p>5 example. Bill Kelly, in his zeal to keep pace with Sheriff's</p> <p>6 acquisition of practices, put that system into the red, you</p> <p>7 know, a big red hole.</p> <p>8 Q And this was the gentleman from Penn?</p> <p>9 A Yes, this was the CEO of Penn.</p> <p>10 Q Specifically relating to the strategy to expand</p> <p>11 AHERF with the hospital acquisitions and physician practice</p> <p>12 acquisitions, that strategy, do you recall, other than perhaps</p> <p>13 yourself -- and you can tell me if you would be included in</p> <p>14 this group -- do you recall any trustees really challenging</p> <p>15 Mr. Abdelhak on that direction, on that strategy?</p> <p>16 A Certainly there were others. I was by no means</p> <p>17 alone.</p> <p>18 Q Do you recall any specific people?</p> <p>19 A Other than the ones that I've already pointed</p> <p>20 to on this list, no. Again, that doesn't mean that there</p> <p>21 weren't others.</p> <p>22 Q Did you ultimately agree with the strategy or</p> <p>23 did you just -- essentially, were you outvoted?</p> <p>24 MS. MEADEN: Objection.</p> <p>25 A Well, for a time it was hard not to agree,</p>	<p style="text-align: right;">Page 33</p> <p>1 Q Let me mark an exhibit as Exhibit 2574. This</p> <p>2 is a document Bates numbered PR-PLD-020-02184 through 89 and</p> <p>3 it says trustees' evaluation on the top. Now this document</p> <p>4 does not have a date on it, but I will represent to you that</p> <p>5 it comes from a stack of trustees' evaluations with a tab on</p> <p>6 top of it saying 1994 trustees' evaluations. Is that your</p> <p>7 signature on the last page?</p> <p>8 A Yes, I recognize my writing. Yes, sure is.</p> <p>9 Q And this is your handwriting on the form?</p> <p>10 A Yes, it is.</p> <p>11 Q Do you recall filling out this form?</p> <p>12 A Not specifically.</p> <p>13 Q You have no doubt that you did?</p> <p>14 A No, I have no reason to disagree nor with any</p> <p>15 of the contents of it.</p> <p>16 Q If you go to the page, the second page, 2185.</p> <p>17 A Yes.</p> <p>18 Q The question is: "Do you have any specific</p> <p>19 comments or suggestions about the number of board and</p> <p>20 committee meetings or the length of meetings?" Could you read</p> <p>21 what you wrote there?</p> <p>22 A It would be helpful if some time could be</p> <p>23 built in to bond with other board members."</p> <p>24 MR. MILLER: Too fast.</p> <p>25 A I'm sorry. "It would be most helpful if</p>

LESLIE ANN MILLER

<p style="text-align: right;">Page 62</p> <p>1 ultimately sickened by Sherif. I think that's a pretty vague 2 but fair description of the nature of the discussions that we 3 would have had.</p> <p>4 Walter had been a prodigious fund-raiser for 5 the institution, so he probably more than many was devastated 6 by the invasion of the endowment, because he had been largely 7 responsible for the growth of that during his tenure, not the 8 least of which was the dedication of a specific endowment in 9 honor of his late wife, Betty, which I think grew to seven 10 figures very quickly. And so he was twice invested in that 11 tragic outcome.</p> <p>12 MR. FRIESEN: Why don't we take another quick 13 break and I think I may be done very quickly if I have a 14 chance to just look at my notes again.</p> <p>15 THE VIDEO OPERATOR: We are now going off 16 camera. The time is 1:23.</p> <p>17 (Recess.)</p> <p>18 THE VIDEO OPERATOR: We are now back on camera. 19 The time is 1:28.</p> <p>20 BY MR. FRIESEN:</p> <p>21 Q Just a few more questions. The physician 22 practice acquisitions, do you recall learning how they were 23 doing financially after they'd been acquired? Was that 24 something that you were kept apprised of?</p> <p>25 A I have no specific recollection.</p>	<p style="text-align: right;">Page 64</p> <p>1 (Discussion held off the record.) 2 (Letter dated November 26, 1996 marked as 3 Exhibit Number 2576.)</p> <p>4 BY MS. MEADEN:</p> <p>5 Q I wanted to ask you and try and pinpoint with a 6 little bit more preciseness the date of your resignation from 7 the AHERF board and its affiliate boards, so I'm going to ask 8 the court reporter to mark a letter that I have here dated 9 November 26th, 1996 to you from Sherif Abdelhak, and we will 10 mark this as Exhibit 2576.</p> <p>11 A Okay.</p> <p>12 Q The letter begins: "Dear Leslie: It is with 13 regret that I accept your resignation from the Boards Of 14 Trustees of Allegheny University of the Health Sciences and 15 Allegheny Health, Education and Research Foundation," and it 16 goes on from there. But, as I said earlier, this letter is 17 dated November 26th, 1996. Does this help refresh your 18 recollection as to perhaps what month in 1996 you resigned 19 from those boards?</p> <p>20 A It would suggest that it was November.</p> <p>21 Q Do you recall what period of time elapsed 22 between the time you tendered your resignation and receiving 23 this letter from Mr. Abdelhak?</p> <p>24 A I honestly do not. I am sorry.</p> <p>25 Q You can put that aside. That's all the</p>
<p style="text-align: right;">Page 63</p> <p>1 Q You don't know one way or the other whether 2 they are doing well or not doing well?</p> <p>3 A I beg your pardon. No, I don't.</p> <p>4 Q Prior to the deposition today, did you meet 5 with Ms. Meaden or anyone else from Jones Day about the 6 deposition?</p> <p>7 A No, I did not have the pleasure.</p> <p>8 Q Did you talk to any of them on the phone?</p> <p>9 A No.</p> <p>10 Q And we've never met?</p> <p>11 A No, we have not.</p> <p>12 MR. FRIESEN: That is all I have, subject to a 13 few more questions once Ms. Meaden is finished.</p> <p>14 A Thank you very much.</p> <p>15 MR. FRIESEN: Thank you for coming in.</p> <p>16</p> <p>17 CROSS-EXAMINATION</p> <p>18</p> <p>19 BY MS. MEADEN:</p> <p>20 Q Ms. Miller, I introduced myself earlier, but I 21 am Laura Meaden and I represent the plaintiff, the Official 22 Committee of Unsecured Creditors of AHERF, in this action, and 23 you will be pleased to know that I have considerably fewer 24 questions for you than Mr. Friesen had today.</p> <p>25 MR. MILLER: Excuse me, off the record.</p>	<p style="text-align: right;">Page 65</p> <p>1 questions I have on that document. Now, you were a volunteer 2 trustee on all of the boards on which you served within the 3 AHERF system; correct?</p> <p>4 A Yes.</p> <p>5 Q And so that was not a full-time job for you to 6 be a trustee of those organizations; correct?</p> <p>7 A No.</p> <p>8 Q And certainly you couldn't give that job the 9 effort that you otherwise gave to your full-time job; correct?</p> <p>10 A No.</p> <p>11 Q But during your entire tenure, I assume that 12 you exercised your fiduciary duty in the best possible way 13 that you could; correct?</p> <p>14 A I certainly attempted to.</p> <p>15 Q And can you tell me what you viewed your role 16 as a trustee as?</p> <p>17 A One of oversight of management, and by that I 18 don't mean micromanaging, but certainly to review on an 19 ongoing basis the decisions of management vis-a-vis the 20 institutions for which they were responsible.</p> <p>21 Q And you were assisted in discharging your 22 fiduciary duties in that role by outside professionals, 23 weren't you?</p> <p>24 MR. FRIESEN: Objection.</p> <p>25 A What do you mean by outside professionals?</p>

LESLIE ANN MILLER

<p style="text-align: right;">Page 66</p> <p>1 BY MS. MEADEN:</p> <p>2 Q Well, certainly there were outside auditors 3 that assisted the board in the financial, reviewing the 4 financial affairs of the institution; correct?</p> <p>5 MR. FRIESEN: Objection.</p> <p>6 A I do not recall, quite honestly, whether we 7 relied on external auditors or not.</p> <p>8 BY MS. MEADEN:</p> <p>9 Q You have no recollection of whether AHERF had 10 any independent auditors during your tenure as a member of the 11 AHERF board?</p> <p>12 A No, I do not, honestly.</p> <p>13 Q If I told you that Coopers and Lybrand were the 14 outside auditors during the 1990s time period at least, would 15 that refresh your recollection at all?</p> <p>16 A Honestly, no.</p> <p>17 Q And you don't recall reviewing audited 18 financial statements then during your tenure as a member of 19 the AHERF parent board?</p> <p>20 A No, I do not.</p> <p>21 Q At any time during your tenure on the AHERF 22 board, do you ever recall receiving any information that any 23 of the information contained in AHERF's financial statements, 24 whether they be internal or audited, was in any way 25 inaccurate?</p>	<p style="text-align: right;">Page 68</p> <p>1 the ongoing audits of the financials of the institution.</p> <p>2 Q I guess what I'm trying to get at is were you 3 aware when you were on the board that the financial statements 4 were being audited?</p> <p>5 A No. You know, I take that back. I don't 6 remember. I can't imagine that I wouldn't have been, but I 7 don't have any specific recollection.</p> <p>8 Q And you have no recollection of audited 9 financial statements being presented to the board for the 10 board's approval at any time during your tenure?</p> <p>11 A I don't specifically recollect it, but if you 12 were to tell me that they would, I wouldn't disagree with you.</p> <p>13 Q Have you ever served on the audit committee of 14 any other organization of which you've been a member of the 15 board?</p> <p>16 A No, I have not.</p> <p>17 Q Do you ever recall hearing at any time during 18 your tenure on the AHERF board that any financial statements 19 of AHERF did not receive a clean opinion from outside 20 auditors?</p> <p>21 A No, I did not.</p> <p>22 Q Do you have any understanding of what the term 23 "clean opinion" is with respect to financial statements?</p> <p>24 A Only a very basic one.</p> <p>25 Q Why don't you tell me what that is.</p>
<p style="text-align: right;">Page 67</p> <p>1 A When you say received information.</p> <p>2 Q Yes, either in writing or verbally.</p> <p>3 A Well, as I suggested in my responses to 4 Mr. Friesen's questions, there were I think it fair to say 5 regular expressions of concern about the adequacy of the 6 financial information that was provided to the trustees to 7 perform their oversight responsibility.</p> <p>8 Q When you say adequacy, are you talking about 9 the completeness?</p> <p>10 A Yes.</p> <p>11 Q The volume of information?</p> <p>12 A Completeness.</p> <p>13 Q But do you ever recall being told by anyone 14 that the information you were receiving was inaccurate?</p> <p>15 A No, I do not.</p> <p>16 Q Were you familiar with the audit committee of 17 the AHERF board?</p> <p>18 A No. I mean I knew one existed, but...</p> <p>19 Q You never served on it?</p> <p>20 A No.</p> <p>21 Q Did you have any understanding of what the role 22 of the audit committee was during your tenure on the AHERF 23 board?</p> <p>24 A Well, it was a more focused form of the overall 25 oversight responsibility of the board, specifically to review</p>	<p style="text-align: right;">Page 69</p> <p>1 A I presume that they had questions about the 2 accuracy of those reports.</p> <p>3 Q I'm sorry, that would be a clean opinion or 4 that would not be a clean opinion?</p> <p>5 A That would be a dirty opinion, I guess.</p> <p>6 Q Okay.</p> <p>7 A Soiled. See why they never put me on an audit 8 committee, off the record.</p> <p>9 Q Based on your experience as a professional and 10 based on your experience on other boards and the AHERF board, 11 do you or did you have any expectation as to the types of 12 things that outside auditors would bring to the attention of 13 the board of directors?</p> <p>14 MR. FRIESEN: Objection; lack of foundation.</p> <p>15 A At that point in time?</p> <p>16 BY MS. MEADEN:</p> <p>17 Q Yes.</p> <p>18 A Honestly, no.</p> <p>19 Q You had testified earlier that you didn't have 20 enough information to know how bad the situation at AHERF was 21 becoming, and I think you testified that that was some time 22 prior to talk of the acquisition of Graduate; is that correct?</p> <p>23 A I'm not sure whether it was prior to or 24 contemporaneously with, at or about that time.</p> <p>25 Q The Graduate, talk of the Graduate acquisition?</p>

LESLIE ANN MILLER

<p style="text-align: right;">Page 70</p> <p>1 A Yes, yes, yes. And when I say -- never mind, 2 go ahead.</p> <p>3 Q Well, that's what I'm going to ask you, what 4 you meant by that statement. Were you talking about the 5 financial condition --</p> <p>6 A Yes.</p> <p>7 Q -- of the entity?</p> <p>8 A And about the extent of, the increasing amount 9 of debt that the system was taking on in contrast to assets. 10 Certainly we were aware and concerned about the very rapid 11 acquisition of practices and systems by Allegheny, but we had 12 been led to believe that there was not only justifa -- 13 strategic justification for doing so, but also financial 14 justification.</p> <p>15 And it was, as I said, at or about the time of 16 the Graduate -- well, it was not an acquisition at the time, 17 because, as we know, it didn't take place for a while, but at 18 the time that Graduate was under consideration that it first 19 became clear that all was not as rosy as it may have seemed.</p> <p>20 And one of the reasons for this is because 21 simultaneously with the consideration of Graduate was the 22 consideration of the Cooper Medical System, the strategy 23 always being that, again, for dominance in the southeastern 24 region we had to have a presence in southern New Jersey, 25 which, as you know, is right across the river from</p>	<p style="text-align: right;">Page 72</p> <p>1 A Yes.</p> <p>2 Q Did you ever receive any information from 3 AHERF's outside auditors that acquiring the Graduate Health 4 System could threaten the continued viability of the AHERF 5 system?</p> <p>6 MR. FRIESEN: Objection.</p> <p>7 A I personally did not, no.</p> <p>8 BY MS. MEADEN:</p> <p>9 Q Are you aware of anyone else on the AHERF board 10 who heard such a thing?</p> <p>11 A No.</p> <p>12 Q The Cooper Medical System that you were talking 13 about, can you tell me exactly how Mr. Abdelhak conveyed to 14 you or other members of the board, I'm not quite sure in what 15 context he conveyed this, but that he was not going through 16 with the Cooper acquisition?</p> <p>17 A It was never formally conveyed, because, to the 18 best of my recollection, he never had formal authorization to 19 pursue it, which would not have been out of the ordinary, 20 because it was characteristic of him to bring propositions to 21 the table, if you will. So through the grapevine, we knew 22 that it was under consideration by management, and through 23 that same grapevine we heard that it was off the table.</p> <p>24 Q I'm trying to understand.</p> <p>25 A It was never a subject of board discussion,</p>
<p style="text-align: right;">Page 71</p> <p>1 Philadelphia.</p> <p>2 Q And when we heard that Sherif had to cancel 3 consideration of the Cooper System, I think it was a red flag 4 for all of us, because it had not been characteristic of him 5 to set out on a, quote, conquest only to retreat.</p> <p>6 Q To put some parameters on this, when you talk 7 about consideration of the Graduate acquisition, are you 8 talking about the August-September 1996 time period?</p> <p>9 A Yes. I was going to say early '96. As I said 10 before, Graduate, consideration of the Graduate system was not 11 new in 1996. It was a topic that had been under discussion 12 for almost the entire Allegheny -- the entire time that 13 Allegheny controlled the system. I think shortly after the 14 merger Harold Cramer sought out Sherif to begin discussions.</p> <p>15 Q But your specific discussion with respect to 16 concerns about the financial condition of AHERF, you were 17 talking about the fall-summer of 1996?</p> <p>18 MR. FRIESEN: Objection.</p> <p>19 A No, I'm talking about all of 1996.</p> <p>20 BY MS. MEADEN:</p> <p>21 Q You said you were led to believe that the 22 Graduate acquisition had a strategic and a financial 23 justification. By whom were you led to believe that?</p> <p>24 A By Mr. Abdelhak.</p> <p>25 Q AHERF management?</p>	<p style="text-align: right;">Page 73</p> <p>1 formal board discussion.</p> <p>2 Q The grapevine that you're referring to, did 3 that include members of AHERF's staff or management?</p> <p>4 A I honestly can't tell you. Just...</p> <p>5 Q Or whether they were community rumors? You 6 just don't recall?</p> <p>7 A No.</p> <p>8 Q And the reason that you heard through the 9 grapevine that he wasn't going through with the Cooper 10 acquisition was because of what?</p> <p>11 A I remember it was in the context of doing the 12 due diligence on Graduate. Apparently when the reality of the 13 extent of the Graduate debt came to the surface, obviously, 14 there had to be an adjustment made.</p> <p>15 Q But you don't recall anything more specific 16 about that then?</p> <p>17 A No, I do not. There was certainly no formal 18 board action.</p> <p>19 Q I take it from your earlier testimony that if 20 issues were brought to your attention that you had concerns 21 about, you didn't hesitate to raise those, any questions that 22 you had with Mr. Abdelhak within the context of a board 23 meeting or otherwise; correct?</p> <p>24 MR. FRIESEN: Objection.</p> <p>25 A Correct.</p>

LESLIE ANN MILLER

<p style="text-align: right;">Page 74</p> <p>1 BY MS. MEADEN:</p> <p>2 Q If information had been brought to your</p> <p>3 attention by AHERF's outside auditors that the acquisition</p> <p>4 strategy that AHERF was engaged in threatened the viability of</p> <p>5 the system going forward, would that have caused you concern?</p> <p>6 MR. FRIESEN: Objection. When?</p> <p>7 A Indeed.</p> <p>8 MS. MEADEN: During her tenure as a member of</p> <p>9 the board.</p> <p>10 A Sure.</p> <p>11 BY MS. MEADEN:</p> <p>12 Q And do you believe that you would have wanted</p> <p>13 an investigation to have been conducted into the basis of</p> <p>14 those statements by the outside auditors --</p> <p>15 MR. FRIESEN: Objection.</p> <p>16 BY MS. MEADEN:</p> <p>17 Q -- and their reasons for believing that the</p> <p>18 acquisition strategy would threaten the viability of the</p> <p>19 system?</p> <p>20 MR. FRIESEN: Objection.</p> <p>21 A I certainly hope that I would have.</p> <p>22 BY MS. MEADEN:</p> <p>23 Q It's something you would not have ignored had</p> <p>24 you heard that; correct?</p> <p>25 MR. FRIESEN: Objection.</p>	<p style="text-align: right;">Page 76</p> <p>1 (The deposition was concluded at 1:47 p.m.)</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>
<p style="text-align: right;">Page 75</p> <p>1 A I can't imagine that I would have, no.</p> <p>2 BY MS. MEADEN:</p> <p>3 Q You had mentioned earlier that you ran into</p> <p>4 Mr. Cook sometime after the bankruptcy was filed and asked him</p> <p>5 didn't you have any idea what was going on. I don't think you</p> <p>6 told us what his response to that question was.</p> <p>7 A Essentially it was a response that he didn't,</p> <p>8 didn't know.</p> <p>9 Q Do you recall --</p> <p>10 A No way of knowing. Again, it was the age</p> <p>11 old...</p> <p>12 Q Didn't have enough financial --</p> <p>13 A Didn't have enough financial information to be</p> <p>14 able to tell.</p> <p>15 Q Do you recall if Mr. Cook ever sat on the audit</p> <p>16 committee of AHERF?</p> <p>17 A No, I do not.</p> <p>18 MS. MEADEN: I don't believe I have any further</p> <p>19 questions pending what Mr. Friesen may ask you now.</p> <p>20 MR. FRIESEN: I'm not going to ask you</p> <p>21 anything.</p> <p>22 A Thank you very much.</p> <p>23 MR. FRIESEN: Thanks very much.</p> <p>24 THE VIDEO OPERATOR: This deposition is now</p> <p>25 concluded. The time is 1:47.</p>	<p style="text-align: right;">Page 77</p> <p>1 STATE OF PENNSYLVANIA: : ss</p> <p>2 COUNTY OF DAUPHIN : I, Sherry Bryant, a Reporter Notary-Public, authorized to administer oaths within and for the Commonwealth of Pennsylvania and take depositions in the trial of causes, do hereby certify that the foregoing is the testimony of LESLIE ANNE MILLER.</p> <p>3 I further certify that before the taking of 4 said deposition, the witness was duly sworn; that the 5 questions and answers were taken down stenographically by the 6 said reporter Sherry Bryant, a Reporter Notary-Public, 7 approved and agreed to, and afterwards reduced to typewriting 8 under the direction of the said Reporter.</p> <p>9 I further certify that the proceedings and 10 evidence contained fully and accurately in the notes by me on 11 the within deposition, and that this copy is a correct 12 transcript of the same.</p> <p>13 In testimony whereof, I have hereunto 14 subscribed my hand this 18th day of May 2004.</p> <p>15 Sherry Bryant, RMR, CRR</p> <p>16 My commission expires: December 13, 2005</p>

20 (Pages 74 to 77)

Morrison Dep.

In The Matter Of:

**AHERF v.
PRICEWATERHOUSECOOPERS**

CHARLES MORRISON

May 14, 2003

**LEGALINK MANHATTAN
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MORRISON, CHARLES



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	Page 354		Page 356
1	only referring to the due diligence reserves.	1	Q. Were you involved at all in what is known as the HSI Technology?
2 Q.	Let me hand you, Mr. Morrison, what has previously been marked as Exhibit 35. Do you recognize this document?	2	A. No.
3		3	Q. Were you familiar with what was called the 4G System?
4		4	A. I'm aware of it, yes.
5 A.	Yes. It's a memo from Dan Cancelmi to me regarding intangible assets on the Graduate entities.	5	Q. What was the 4G System?
6		6	A. It was a piece of software that was being developed. I don't actually even recall what the software was designed to do, but I'm aware that it was a piece of software that was being developed within the Graduate organization in some fashion that Graduate had made some investment in.
7		7	Q. Does HSI stand for Health System International?
8 Q.	And one of the intangible assets on the Graduate entities that Mr. Cancelmi lists here on the schedule -- I'm referring to the second row -- is bad debt reserves for DVAR?	8	A. That's my understanding, yes.
9		9	Q. Were you aware of the fact that AHERF had purchased the 4G software program from Health System International?
10		10	A. I don't have any specific knowledge of that.
11		11	I believe in the course of conversations in the hallway I was aware that was the case, yes.
12 A.	Yes.	12	Q. And who at AHERF was involved with that, to
13 Q.	That's in the amount of \$50 million?	13	
14 A.	Yes.	14	
15 Q.	Was it your understanding when you received this memo that was a reference to what we've been calling \$50 million reserve transfer?	15	
16		16	
17		17	
18 A.	Yes.	18	
19 Q.	Are you familiar with any of the familiar intangible assets that were capitalized in the Graduate entities listed on this schedule Exhibit 35?	19	
20		20	
21		21	
22 A.	The estimated loss on disposal of Mt. Sinai I'm generally familiar with. It was an estimate of what the shutdown costs	22	
23		23	
24		24	
25		25	
	Page 355		Page 357
1	associated and the carrying costs associated with the closure of that facility.	1	the best of your knowledge?
2		2	A. Involved with?
3 Q.	Did you play a role in coming up with the \$5,046,000 estimate?	3	Q. The purchase of the 4G software program from Health System International.
4		4	A. Well, it would have been -- at least as far as I know, it would have been part of the due diligence process that involved the acquisition of all the Graduate entities.
5 A.	I think my staff provided support to that effort, yes.	5	9 David McConnell was involved, Dan Kelly was involved, the due diligence team, counsel for Foley & Lardner.
6		10	11
7 Q.	To the best of your knowledge, was that a good estimate of the estimated loss on disposal of Mt. Sinai?	12	Q. Why was Mr. Cancelmi providing you with this information about intangible assets on the Graduate entities?
8		13	
9		14	
10 A.	I have no reason to think otherwise.	15	A. As best I recall was information so that we were aware of what the items in the balance sheet represented, and also I believe it was so that we could incorporate the amortization into the budgeting process.
11 Q.	I interrupted you. Are there other intangible assets with which you're familiar?	16	20 Q. Because you were involved with a Graduate budgeting process by this time?
12		17	21
13 A.	The topics, I'm familiar with how the amounts were determined, and what their probability of exposure are I am not familiar with.	18	A. We would have been developing the fiscal '98 -- yes, fiscal '98 budgets for the Graduate organization.
14		19	22
15 Q.	Which other topics were you familiar with?	20	Q. Let me hand you, Mr. Morrison, what's
16 A.	The SSMOB was a medical office building.	21	
17 Q.	That was known as The Church?	22	
18 A.	I thought it was a medical office building associated with Parkview Hospital.	23	
19 Q.	Okay.	24	
20 A.	The estimated loss on disposal of Zurbrugg facility is an issue I'm aware of. I'm not familiar with the amount. Those are the ones that I have recollection of.	25	
21		21	
22		22	
23		23	
24		24	
25		25	

	Page 358		Page 360
1	previously been marked as Exhibit 41. Do you	1	Q. It would have been required by Coopers &
2	recognize Exhibit 41?	2	Lybrand; right?
3 A.	Yes.	3 A.	Generally accepted accounting principles.
4 Q.	What is it?	4 Q.	But it was your view, wasn't it, and the view
5 A.	A memo from Dan Cancelmi to me regarding the	5	of others at AHERF, so far as you knew, that
6 Delaware Valley bad debt reserve shortfall.	6	the reason AHERF had to do something in June	
7 Q.	He refers in the column headed Graduate	7	'97 to make up the \$25 million bad debt
8 Reserves to the \$50 million reserve transfer;	8	reserve shortfall was that otherwise Coopers	
9 right?	9	& Lybrand would come in for the year-end	
10 A.	Yes.	10	audit and they would see that there is a
11 Q.	And he reported to you that without that \$50	11	shortfall; isn't that right?
12 million reserve transfer that DVOG bad debt	12	MR. COGAN: Objection.	
13 reserve shortfall as of May 31, '97, would	13	A. Just to clarify, it wasn't my responsibility	
14 have been just over \$75 million; right?	14	to do the financial statements. The	
15 A.	Yes.	15	corporate accounting services held that
16 Q.	So after the \$50 million reserve transfer	16	responsibility. My view, which is what you
17 there was still a remaining bad debt reserve	17	asked me, is that it would be resolved in the	
18 shortfall at DVOG of just over \$25 million;	18	course of the year-end financial statements	
19 right?	19	preparation and the audit.	
20 A.	Yes.	20	And did you think to yourself at the time
21 Q.	The date of this memo is June 20, '97; right?	21	that the fact that Coopers & Lybrand was
22 A.	Yes.	22	going to come in and do the year-end audit
23 Q.	Ten days before the end of the fiscal year?	23	was a reason why AHERF had to do something to
24 A.	Yes.	24	plug the shortfall?
25 Q.	And with one month to go there was a \$25	25	A. My recollection is that I expected that the
	Page 359		Page 361
1	million shortfall still; right?	1	year-end financial statements and the Coopers
2 A.	That's what the memo says, yes.	2	audit would resolve the issue, either
3 Q.	When you received this memo did you know that	3	supporting what had been done internally or
4 AHERF had to do something in June '97, the	4	making appropriate adjustments.	
5 last month of fiscal year, in order to plug	5	Q. Let me hand you what has previously been	
6 the \$25 million shortfall?	6	marked as Exhibit 161. Do you recognize	
7 A.	My recollection is it was my view that	7	Exhibit 164, Mr. Morrison?
8 whatever shortfall that was out there would	8	A. I don't have any specific recollection of it.	
9 be resolved in the year-end financial	9	I'm copied on the memo.	
10 statements.	10	Q. It's a July 3, '97 memo from Mr. Cancelmi to	
11 Q.	How did you think it would be resolved from	11	Mr. Adamczak?
12 the year-end financial statements?	12	A. Yes.	
13 A.	Well, if the reserve transfer of \$50 million	13	Q. And you, Mr. McConnell, Mr. Dionisio and
14 was a valid number, that would contribute to	14	Mr. Snow are all shown as being copied?	
15 the reduction of the financial statement	15	A. Yes.	
16 impact. Anything beyond that would have a	16	Q. If you could turn, please, to the second page	
17 financial statement impact.	17	of the memo. Do you see there that the third	
18 Q.	Through bad debt expense?	18	paragraph refers to the \$50 million transfer
19 A.	Yes.	19	of Graduate reserves?
20 Q.	Why couldn't AHERF just leave a bad debt	20	A. Yes.
21 reserve shortfall at the end of the fiscal	21	Q. And then the fact that there is a \$25 million	
22 year?	22	bad debt reserve shortfall still remaining as	
23 A.	Well, to the extent that we acknowledge that	23	we saw on Exhibit 41?
24 the reserve was inadequate, we would be	24	A. Yes.	
25 required to correct it.	25	Q. Do you see Mr. Cancelmi then writes, Since a	

<p style="text-align: right;">Page 454</p> <p>1 3:30. 2 ----- 3 (The proceedings were recessed at 3:30 p.m.) 4 ----- 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25</p>	<p style="text-align: right;">Page 456</p> <p>1 COMMONWEALTH OF PENNSYLVANIA) ERRATA 2 COUNTY OF ALLEGHENY) SHEET 3 I, CHARLES MORRISON, have read the forgoing 4 pages of my deposition given on Wednesday, May 14, 5 2003, and wish to make the following, if any, 6 amendments, additions, deletions or corrections: 7 Page/Line Should Read Reason for Change 8 9 10 11 12 13 14 15 16 17 18 19</p> <p>In all other respects, the transcript is true and correct.</p> <hr/> <p style="text-align: center;">CHARLES MORRISON</p> <p>Subscribed and sworn to before me this day of _____, 2003.</p> <hr/> <p style="text-align: center;">Notary Public AKF Reference No. Cg75479</p>
<p style="text-align: right;">Page 455</p> <p>1 COMMONWEALTH OF PENNSYLVANIA) CERTIFICATE 2 COUNTY OF ALLEGHENY) SS: 3 I, Claire Gross, RDR, a Court Reporter and 4 Notary Public in and for the Commonwealth of 5 Pennsylvania, do hereby certify that the witness, 6 CHARLES MORRISON, was by me first duly sworn to 7 testify to the truth; that the forgoing deposition 8 was taken at the time and place stated herein; and 9 that the said deposition was recorded 10 stenographically by me and then reduced to printing 11 under my direction, and constitutes a true record of 12 the testimony given by said witness. 13 I further certify that the inspection, reading 14 and signing of said deposition were NOT waived by 15 counsel for the respective parties and by the 16 witness. 17 I further certify that I am not a relative or 18 employee of any of the parties, or a relative or 19 employee of either counsel, and that I am in no way 20 interested directly or indirectly in this action. 21 IN WITNESS WHEREOF, I have hereunto set my hand 22 and affixed my seal of office this 15th day of May, 23 2003. 24 25 _____ Notary Public</p>	

In The Matter Of:

*AHERF v.
PRICEWATERHOUSECOOPERS, LLP*

CHARLES P. MORRISON

June 29, 2004

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MORRISON, CHARLES P. - 30(b)(6)



<p style="text-align: right;">Page 186</p> <p>1 CHARLES P. MORRISON 2 They would be actions in the 3 Bankruptcy Court, so they would be on the 4 docket of the Bankruptcy Court. 5 There was an action against 6 Mr. Ambuhack, Mr. McConnell and Mr. Weinstein 7 to recover payments that were made under a 8 KESOP benefit program. 9 There are actions currently 10 pending against two third-party payers related 11 to receivable recoveries that are in process, 12 and there are I believe a handful of cases 13 related to claims that are pending before the 14 Bankruptcy Court as well. 15 Q That is whether a claim should 16 be allowed or not? 17 A Yes. 18 Q What are the actions against the 19 two third-party payers to which you referred? 20 A One is -- I take that back. One 21 of them has been settled, that was with -- 22 against Health Partners, a third-party HMO in 23 Philadelphia. 24 The substance of the case is we 25 engaged a collection agency to evaluate the</p>	<p style="text-align: right;">Page 188</p> <p>1 CHARLES P. MORRISON 2 Q And U.S. Healthcare is now 3 affiliated with the insurance company Aetna, 4 right? 5 A Yes. 6 Q Which is a member of the 7 Creditors Committee, right? 8 A Yes. 9 Q You referred to preference 10 actions against creditors, and I understand 11 that there is a Bankruptcy Court docket, but it 12 is many thousands of pages long, so it's made 13 it difficult for me to know exactly what might 14 have taken place in the bankruptcy. 15 Are there any preference actions 16 that come to mind other than the one we have 17 already discussed against the Mellon Bank group 18 that were in a material amount? 19 A Most of the preference claims 20 were resolved through negotiation with the 21 creditors. 22 The ones where we couldn't reach 23 a suitable settlement were pursued in 24 litigation. 25 The most notable one that I can</p>
<p style="text-align: right;">Page 187</p> <p>1 CHARLES P. MORRISON 2 billings that had been rendered to third-party 3 payers and to make an assessment as to whether 4 we were paid all of the amounts that we were 5 entitled to under the contractual arrangements. 6 They reviewed the accounts, 7 rebilled those accounts where they believed we 8 were underpaid, and the vast majority of those 9 claims were paid in the normal course by the 10 third-party payers. 11 This case and the one that's 12 pending, the one that's pending is against U.S. 13 Healthcare, relate to payers that for whatever 14 reason have refused to pay us, and so because 15 we believe we are entitled to the money, we 16 have initiated litigation to pursue recovery. 17 Q Do you know what the amount of 18 recovery was in the action against Health 19 Partners? 20 A It was \$60,000, I think it was. 21 Q Do you know what the amount of 22 money at issue is in the action against U.S. 23 Healthcare? 24 A I believe it is roughly \$180,000 25 to \$185,000.</p>	<p style="text-align: right;">Page 189</p> <p>1 CHARLES P. MORRISON 2 think of is with United Creditors Alliance, 3 which was a collection agency. 4 The Bankruptcy Court has 5 rendered a judgment in the amount of \$126,000, 6 \$127,000. The creditors appealed to the Third 7 Circuit. 8 Q Are there any other parties whom 9 the Chapter 11 Trustee has considered suing in 10 connection with damages caused before the 11 bankruptcy to the Debtors' estates? 12 MR. FRIEDMAN: Objection. Again, 13 I advise the witness not to divulge any 14 conversations with counsel. 15 A None that come to mind. 16 Q The Chapter 11 Trustee has 17 decided not to sue PricewaterhouseCoopers, 18 right? 19 MR. COGAN: Objection. 20 MR. FRIEDMAN: Objection. 21 A As far as I know that's correct, 22 yes. 23 Q Let me now turn to the 24 bankruptcy plan. 25 MR. RYAN: Let me mark this</p>

<p style="text-align: right;">Page 190</p> <p>1 CHARLES P. MORRISON 2 please as the next exhibit number. 3 (The above described document was 4 marked Exhibit 2765 for identification as 5 of this date.) 6 Q You have before you, sir, 7 Exhibit 2765? 8 A Yes. 9 Q That is the second amended 10 consolidated liquidating plan of reorganization 11 under Chapter 11 of the Bankruptcy Code? 12 A Yes. 13 Q That's quite a mouthful. 14 It's my understanding that what 15 this is is the plan by which distributions are 16 made to various categories of creditors, is 17 that right? 18 A Among other provisions, yes. 19 Q Let me turn, if you would turn 20 with me, please, to Page 15. 21 A 15? 22 Q Yes, Section 5.4 of the plan. 23 A Yes. 24 Q This refers to secured claims of 25 holders of MBIA/PNC claims?</p>	<p style="text-align: right;">Page 192</p> <p>1 CHARLES P. MORRISON 2 Q Could you describe for us, 3 please, what it is? 4 A It is a recitation of the 5 distributions that have been made to creditors 6 since the approval of the plan, the percentage 7 recoveries to unsecureds and admin and priority 8 claimants, secured, unsecured, admin and 9 priority claimants. 10 Q The first page of Exhibit 2766 11 reflects that the cumulative recovery to date 12 for general unsecured claims of non-Centennial 13 creditors has been 19.25 percent, is that 14 right? 15 A For the non-Centennial unsecured 16 creditors, yes, that's correct. 17 Q And that's beginning with an 18 initial amount that was distributed in December 19 of 2000 and goes here through a distribution in 20 December of 2003, right? 21 A Yes. 22 Q Now, the recovery of general 23 unsecured creditors of Centennial has been less 24 than that as shown here in the right column, 25 right?</p>
<p style="text-align: right;">Page 191</p> <p>1 CHARLES P. MORRISON 2 A Yes. 3 Q Is this the provision of the 4 plan to which we referred in general terms 5 earlier that provides a partial secured claim, 6 that is, that grants a secured claim in a 7 partial amount of the total claim, to MBIA and 8 to PNC Bank? 9 A Yes. 10 MR. FRIEDMAN: Objection. 11 Q Combining the two of them, their 12 secured claim is \$50 million? 13 A Yes. 14 Q The remainder of their claim 15 that is unsecured, and that's in the amount of 16 \$340.3 million combined? 17 A Yes. 18 MR. RYAN: Let me mark this two 19 page document as Exhibit 2766. 20 (The above described document was 21 marked Exhibit 2766 for identification as 22 of this date.) 23 Q Are you familiar, Mr. Morrison, 24 with Exhibit 2766? 25 A Yes.</p>	<p style="text-align: right;">Page 193</p> <p>1 CHARLES P. MORRISON 2 A Yes. 3 Q Why is it that the Centennial 4 creditors are recovering at a lower rate than 5 the non-Centennial creditors? 6 A In the course of the case it 7 became apparent that the assets available 8 within the Centennial estate may not have been 9 sufficient to cover the administrative costs of 10 the estate, let alone the claims of the estate, 11 and ultimately the plan established a separate 12 class of creditors for those creditors with 13 claims against the Centennial hospitals for 14 payment on an unsecured basis at 30 percent of 15 whatever the recovery rate for the general 16 unsecured creditors were. 17 Q That's because there were fewer 18 assets for that Debtor than for the other 19 Debtors? 20 A Yes. 21 Q The creditors for the other four 22 Debtors had their claims all consolidated, is 23 that right? 24 A Yes, they are all -- all of the 25 entities have been consolidated, the claims</p>

	Page 294		Page 296
1	CHARLES P. MORRISON	1	CHARLES P. MORRISON
2		2	E X H I B I T S
3	E X H I B I T S	3	E X H I B I T S
4	EXHIBIT FOR IDENT.	4	FOR IDENT.
5	2753 Document headed "Allegheny Health, Education & Research Foundation, AHERF, Status Update and Review of Liquidation Objectives" dated May 13, 1999" 117	5	2775 Proof of Claim number 2448 filed by 254 Steelcase Financial Services, Inc.
6		6	2776 Travelers' Administrative Proof of 256 Claim
7	2754 Monthly operating report for the AHERF Debtors for June of 2000 121	7	2777 Proof of Claim number 6293 filed by 259 Waste Management of Pennsylvania, Inc.
8		8	
9	2755 E-mail from Todd Kevles to Mr. Morrison from April 2000 136	9	2778 Schedules regarding professional 265 fees
10		10	2779 Proof of Claim filed by Travelers 288 Casualty & Surety Company
11	2756 E-mail from Todd Kevles to Mr. Morrison from November 2000 138	12	
12		13	I N D E X
13	2757 E-mail from Todd Kevles to Mr. Morrison from January 2001 152	14	REQUESTS FOR DOCUMENTS/INFORMATION
14	2758 Complaint filed by the Chapter 11 152 Trustee against Mellon Bank, Toronto Dominion, Bank One and Bank of Chicago	15	
15		16	Page 33
16	2759 Stipulation of settlement and order 156 relating to settlement of preference action against Mellon Bank group	17	
17		18	
18	2760 Settlement agreement from January 158 2002 settling various AHERF related claims	19	
19		20	
20	2761 Complaint in lawsuit brought by the 159 Official Committee of Unsecured Creditors against certain officers and trustees of AHERF	21	
21		22	
22	2762 Joint motion for approval of top 173 insurer settlement agreement with attachments	23	
23		24	
24		25	
25			
	Page 295		Page 297
1	CHARLES P. MORRISON	1	CHARLES P. MORRISON
2	E X H I B I T S	2	
3	EXHIBIT FOR IDENT.	3	C E R T I F I C A T E
4		4	
5	2763 Complaint brought by the Chapter 11 177 Trustee against the Philadelphia Health Care Trust	5	I, STEPHEN J. MOORE, a Shorthand
6		6	Reporter and Notary Public of the State of New York,
7	2764 Monthly operating report for AHERF 181 for January 2001	7	do hereby certify:
8		8	
9	2765 Second amended consolidated 190 liquidating plan of reorganization under Chapter 11 of the Bankruptcy Code	9	That, CHARLES P. MORRISON, the witness
10		10	whose deposition is hereinbefore set forth was duly
11	2766 Document listing distributions to 191 creditors	11	sworn, and that such deposition is a true record of
12		12	the testimony given by such witness.
13	2767 Claims register run April 14, 2004 197 sorted by category code	13	
14		14	I further certify that I am not
15	2768 Summary of claims document 199	15	related to any of the parties to this action by blood
16	2769 Settlement with the United States 213 Department of Health and Human Services	16	or marriage; and that I am in no way interested in
17	2770 Monthly operating report for AHERF 215 for April 2004	17	the outcome of this matter.
18		18	
19	2771 Proof of Claim filed by Allegiance 230 Healthcare Corporation	19	
20	2772 Proof of Claim filed by Bell 234 Atlantic Network Integration, Inc.	20	Stephen J. Moore, RPR, CRR
21		21	
22	2773 Proof of Claim of Ian Cummings, 236 M.D.	22	
23	2774 Proof of Claim number 5128 filed by 251 Sieman's Medical System	23	
24		24	
25		25	

75 (Pages 294 to 297)

Page 298

CHARLES P. MORRISON
ERRATA SHEET

PAGE/LINE CHANGE FROM CHANGE TO

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Moyer Dep.

MICHAEL W. MOYER

Page 1

1 IN THE UNITED STATES DISTRICT COURT FOR THE
2 WESTERN DISTRICT OF PENNSYLVANIA

2 - - - -

3

THE OFFICIAL COMMITTEE OF)
4 UNSECURED CREDITORS OF)
5 ALLEGHENY HEALTH, EDUCATION &)
RESEARCH FOUNDATION,)
Plaintiff,)
-vs-) Civil Action
PRICEWATERHOUSECOOPERS, L.L.P.) No. 00-684
Defendant.)

10

11

12 VIDEOTAPE DEPOSITION OF: MICHAEL W. MOYER

13

14

DATE: November 15, 2002
Friday, 9:00 a.m.

15

16

LOCATION: MANION McDONOUGH & LUCAS
14th Floor, USX Tower
Pittsburgh, PA 15219
412-232-0200

17

18

19

TAKEN BY: Defendant

20

21

REPORTED BY: JoAnn M. Brown, RMR
Notary Public
AKF Reference No. JB72890

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23

24

25

MICHAEL W. MOYER

Page 198	Page 200
<p>1 just identify the document?</p> <p>2 A. It's basically a request for information so 3 that they could perform their audit for fiscal 4 year 1997, and it wanted certain pieces of 5 information and wanted it either in computer or 6 otherwise.</p> <p>7 Q. Just to be clear, this is information you 8 received from John Lydon and Chuck Lisman at 9 the request from them to provide information to 10 Coopers?</p> <p>11 A. Correct.</p> <p>12 Q. In connection with the '97 audit, is that 13 right?</p> <p>14 A. That's correct.</p> <p>15 Q. Okay. You don't recollect receiving this?</p> <p>16 A. Truthfully, it didn't jump into my mind. I do 17 not deny getting it, because I'm sure I did, 18 but since it would have been a standard -- 19 nothing that jumps out that would have been odd 20 to me.</p> <p>21 Q. Do you have any reason to believe that you 22 failed to provide --</p> <p>23 A. Oh, I'm sure we provided all information that 24 was requested of us.</p> <p>25 Q. Okay. Was that your standard practice?</p>	<p>1 you had with him about that, and I just wanted 2 to give you a chance.</p> <p>3 A. I don't remember the entire conversation. I 4 know that it was not long. I'm sure that 5 probably in one of our one-on-one meetings that 6 we had occasionally, I asked him about the 7 recapture, I mean, just the philosophy that 8 they use since they had just done this at 9 Graduate Hospital as well, and the philosophy 10 that they use to come up with the numbers and 11 how they went about it. It was not a 12 confrontational meeting, because you did not do 13 that with David, it was just really, gee, I'd 14 like to understand what you did. It was 15 probably two or three minutes long, and that 16 was it.</p> <p>17 Q. When is the first time that you learned that 18 AHERF was planning on acquiring the Graduate 19 hospitals?</p> <p>20 A. I think that came up after we had started 21 discussions with AHERF about our own merger, if 22 I remember correctly, and I know it was a -- it 23 was a little bit of a concern, and I'm not sure 24 if I found out about it through the news or 25 whether I got word of it through Barry Roth who</p>
<p style="text-align: center;">Page 199</p> <p>1 A. Our standard practice was -- and, truthfully, 2 had we not, I'm sure one of the managers would 3 have called me directly and said your people 4 are not providing information, and we did not 5 get a call. So, I'm sure when we received 6 this, that I just turned it over to those 7 people that would have provided the information 8 and moved on. Because, truthfully, looking at 9 the things that they've asked for, almost 10 everything that they ask for was information 11 that would have come from the accounting 12 people. None of them worked for me at this 13 point in time, okay, which is another reason 14 for me not necessarily to remember, because 15 even though I was on the distribution list, I'm 16 not sure that any of this information was under 17 my control any longer, and the people who did 18 control it were also on the distribution list, 19 so --</p> <p>20 Q. I know you mentioned earlier that you may have 21 had a discussion with David McConnell about 22 recapture?</p> <p>23 A. Correct.</p> <p>24 Q. And I'm not sure if I understood earlier that 25 you had told us about the entire conversation</p>	<p style="text-align: center;">Page 201</p> <p>1 would have gotten word of it from Sherif 2 himself.</p> <p>3 Q. Why was it of concern?</p> <p>4 A. Were they biting off more than they could chew 5 kind of thing all at once to do the Graduate, 6 which was not a small system, and then at the 7 same time to be talking about Forbes and 8 Allegheny Valley, Canonsburg. This was just a 9 lot to do even for a huge staff that they had.</p> <p>10 Q. You mentioned that prior to AHERF's acquisition 11 of Forbes, you had reviewed materials about 12 AHERF that gave no indication that there was a 13 cash crunch I think is what you called it. 14 What did you review that helped you arrive at 15 that conclusion?</p> <p>16 A. We reviewed the audited financial statements 17 from the previous year end.</p> <p>18 Q. Which would have been?</p> <p>19 A. Which would have been -- let's see. When did 20 we do this? We did this in '96, right, because 21 the merger was effective January 1, '97? So we 22 were in '96. So we probably were using '95 23 year end, because we were doing this before 24 their audited financials would have been 25 complete for '96, so it's my guess that we were</p>

MICHAEL W. MOYER

	Page 202		Page 204
<p>1 looking at the year before, '95, and we 2 probably -- although I don't remember at the 3 moment, but I would think that we also had some 4 interim internal financial statements from them 5 as well that maybe took us through half year, 6 through January, but those would have been 7 unaudited statements.</p> <p>8 Q. Was there anything else that you would have 9 reviewed other than those two items?</p> <p>10 A. I do not remember getting cash flow information 11 from them, but, again, that's so long ago. I 12 know we did not get a huge amount of 13 information from them, but we did at least have 14 some financial statement information, and 15 several years' worth, that we analyzed before 16 moving ahead.</p> <p>17 Q. Why didn't you think that David McConnell was a 18 truthful person?</p> <p>19 A. My association with Mr. McConnell goes back to 20 1980 when he applied to me for a job and I 21 didn't hire him. I thought his background in 22 accounting was weak, personal view, and the 23 slipshod way that they ran their accounting 24 department which became apparent after the 25 merger. We really had no knowledge of that</p>		<p>1 liked to live my life, so they were rumors, and 2 so I tend not to like to repeat rumors too 3 much, but I just didn't trust him.</p> <p>4 Q. When you were at Forbes and you had 5 responsibility for creating what you've called 6 CRA reserves --</p> <p>7 A. Yes.</p> <p>8 Q. -- what was your objective when you would 9 create those reserves?</p> <p>10 A. Okay. A little history. The year before I 11 went to Forbes, they had a loss from 12 operations, and one of the reasons that they 13 had a loss from operations was they settled a 14 prior year's cost report and they did not have 15 it properly reserved, so they had to pay back 16 some money that the government had paid them -- 17 or Blue Cross, I don't remember -- and then 18 they had to take that all through the current 19 year which created a loss, which at the time 20 was only a couple hundred thousand dollars, but 21 for a hospital like in '78, '79, those were big 22 dollars. The board was very upset, one of the 23 reasons I got hired.</p> <p>24 My objective from day one at Forbes, 25 and my personal philosophy in finance</p>	
	Page 203		Page 205
<p>1 prior to the merger. I just didn't find -- I 2 found it easy when you have a slipshod 3 operation to shade the truth in the direction 4 that you want the truth to go, and it was just 5 my personal view that I did not think that they 6 ran a very tight ship. I didn't think that 7 their accounting controls were very good. 8 Certainly, the information that they provided 9 to their managers was not very good in 10 comparison to what we did at Forbes, and I just 11 did not think that he was always being 12 truthful.</p> <p>13 Q. I guess it's one thing to have a slipshod 14 department, but it's probably another thing to 15 be untruthful. Is there something other than 16 that?</p> <p>17 I don't think I'm asking a good 18 question, but what I'm trying to understand is 19 was there something other than the nature of 20 the accounting department that operated at 21 AHERF that allowed -- or helped you arrive at 22 the conclusion that McConnell was not to be 23 trusted?</p> <p>24 A. Let's say the rumors that I heard about him and 25 the conduct of his life did not match the way I</p>		<p>1 accounting, is to be conservative. So, we at 2 Forbes always took the conservative role. I 3 always underbooked revenue. I would always 4 reserve on the bad side to make sure that when 5 it happened, I was going to have a happy 6 surprise for the board and not a bad surprise 7 for the board, and I think in all of my years 8 at Forbes, we only had one bad surprise. We 9 were very conservative in booking what we 10 thought people owed us as settlements so we 11 would end up with reserves that were reserves 12 that were really, you know, going to help us at 13 the end, because when we actually got the 14 settlement, we would end up with more money 15 than what we thought we said we were going to 16 get.</p> <p>17 Q. Were you bound by any requirements to make sure 18 that you did not -- were not overly 19 conservative?</p> <p>20 A. Yes.</p> <p>21 Q. What were those requirements?</p> <p>22 A. Well, obviously, again, the auditors are 23 concerned that we not misstate in either 24 direction, not overstate income or understate 25 income to any great degree, but most auditing</p>	

MICHAEL W. MOYER

<p style="text-align: right;">Page 206</p> <p>1 firms are also going -- if you're going to make 2 a mistake, they would rather you made the 3 mistake of being more conservative rather than 4 less conservative has been my experience over 5 the years.</p> <p>6 Q. Why do you think that is?</p> <p>7 A. Well, because they would rather report that 8 your income was less than it was and be 9 surprised to the good in the future as well. 10 They don't want people thinking that you are 11 doing better than you are.</p> <p>12 Q. People who might be relying on the financial 13 statements?</p> <p>14 A. Which in our case was bondholders and bankers. 15 I mean, we had no stockholders, so those were 16 our two constituencies that we needed to make 17 sure that the statements were accurate for.</p> <p>18 Q. If you were to transfer reserves, CRA reserves 19 that had been established to another account, 20 for instance -- is there any reason why you 21 would not transfer reserves that you had 22 established, CRA reserves, to another account?</p> <p>23 A. Well, we go back to the same question as 24 earlier. I don't know why anyone would ever 25 transfer a CRA account. It's specific to the</p>	<p style="text-align: right;">Page 208</p> <p>1 the reserve. That was Barb Johnson's job. She 2 is the expert in reimbursement, one of the best 3 in town. So that was her job to come up with 4 the number and then convince me that it was 5 right. It did not take a lot of convincing. 6 She was the expert and I wasn't. But I know 7 our philosophy over 20 years, and our 8 philosophy was we are going to be conservative 9 in our reserves. So I'm sure that our CRA 10 reserve was conservative. I have no doubts in 11 my mind that it wasn't.</p> <p>12 Q. When did you learn that AHERF would be using a 13 consolidated financial statement for '97 -- for 14 its '97 financial statements?</p> <p>15 A. Probably not until late, but that was not a 16 surprise to me. I had assumed all along that 17 they would consolidate and use one statement. 18 We hadn't discussed it, so I didn't know for 19 sure until later in the process, but I just 20 assumed that that would be the case.</p> <p>21 Q. Did you have an opinion about the decision to 22 move to a consolidated financial statement?</p> <p>23 A. No, I didn't have an opinion one way or 24 another.</p> <p>25 MR. TAMBURRI: Let's go off the</p>
<p style="text-align: right;">Page 207</p> <p>1 hospital, and it's specific to what happened at 2 that hospital. So there may be occasion, and 3 I'm not just seeing it being a rather 4 short-sighted person sometimes, as to why one 5 might want to transfer a reserve from one body 6 to another body, but at the moment, I can't -- 7 in my own mind, I can't see why anyone would do 8 that.</p> <p>9 Q. Is the risk of doing that that if a reserve was 10 properly recorded -- let me step back. 11 If a risk -- if a reserve was 12 properly recorded for, and I'm specifically 13 talking about a CRA reserve, would the risk be 14 that if you transferred that reserve to another 15 account, you have essentially underreserved a 16 potential exposure?</p> <p>17 A. Well, there's always the risk that we had 18 underreserved and that we were going to then 19 collect less than we said or that we were going 20 to owe more than we said, whichever, both of 21 those would be an underreserve, but I know in 22 the case of Forbes, we did not underreserve. 23 It was not our practice to underreserve. It 24 was not our philosophy of the people who were 25 determining -- I personally did not determine</p>	<p style="text-align: right;">Page 209</p> <p>1 record. I'm going to take a look at my notes, 2 but I think I'm about there.</p> <p>3 THE VIDEOGRAPHER: We're going off 4 the record. The time indicated on the screen 5 is 3:25 p.m.</p> <p>6 ----</p> <p>7 (There was a recess in the proceedings.)</p> <p>8 ----</p> <p>9 THE VIDEOGRAPHER: Back on the 10 record. The time indicated is 3:31 p.m.</p> <p>11 BY MR. TAMBURRI:</p> <p>12 Q. Almost done, Mr. Moyer. 13 How many years in your career at 14 Forbes did you spend having some interaction or 15 responsibility for interacting with either the 16 bond-issuing authority or bondholders of 17 Forbes?</p> <p>18 A. I think my interaction with the bond authority 19 started almost immediately after I started with 20 the organization, so, truthfully, since like 21 1980. Even though it was not my direct 22 responsibility the first year or two, I 23 attended most of the meetings with the then 24 vice president of finance whose responsibility 25 it was, and in some cases just went to the</p>